

**REPORT OF THE AUDIT OF THE
HENDERSON COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2002**



EDWARD B. HATCHETT, JR.
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE HENDERSON COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2002**

The Auditor of Public Accounts has completed the Henderson County Fiscal Court audit for fiscal year ended June 30, 2002. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

Financial Condition:

Cash balances decreased by \$3,188,614 from the beginning of the year, resulting in a cash surplus of \$4,924,643 as of June 30, 2002.

Debt Obligations:

Total bonded debt principal as of June 30, 2002, was \$14,975,000. Future collections of \$25,016,030 are needed to pay all bonded debt principal and interest.

Report Comments:

- The Fiscal Court Should Adopt An Administrative Code In Accordance With KRS 68.005
- The County Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral Of \$680,000 To Protect Deposits

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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor

Gordon C. Duke, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Sandy Lee Watkins, Henderson County Judge/Executive

Members of the Henderson County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and equity arising from cash transactions of Henderson County, Kentucky, as of June 30, 2002, the related statement of cash receipts, cash disbursements, and changes in cash balances, and the statement of cash flows for the year then ended. These financial statements are the responsibility of the Henderson County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Henderson County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The modified cash basis accounting system does not require an entity to maintain a general fixed asset group or a general long-term debt group of accounts.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and equity of Henderson County, Kentucky, as of June 30, 2002 and its receipts and disbursements, and the cash flows of its enterprise fund for the year then ended, in conformity with the modified cash basis of accounting.



To the People of Kentucky
Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Sandy Lee Watkins, Henderson County Judge/Executive
Members of the Henderson County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated July 11, 2003 on our consideration of Henderson County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Henderson County, Kentucky. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Fiscal Court Should Adopt An Administrative Code In Accordance With KRS 68.005
- The County Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral Of \$680,000 To Protect Deposits

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
July 11, 2003

HENDERSON COUNTY OFFICIALS

For The Fiscal Year Ended June 30, 2002

Fiscal Court Members:

Sandy Lee Watkins	County Judge/Executive
Wanda Lee Pruden	Magistrate
Charles G. Alexander	Magistrate
William L. Newman	Magistrate
Donald Hugh McCormick	Magistrate
James C. Hicks	Magistrate

Other Elected Officials:

Charles McCollom	County Attorney
Miles Hart	Jailer
Wilma G. Martin	County Clerk
William T. Burton	Circuit Court Clerk
Dennis Clary	Sheriff
Steve Hargis	Property Valuation Administrator
Don Cantley, M. D.	Coroner

Appointed Personnel:

Rebecca Carroll	County Treasurer
Paula Pritchett	Finance Officer

STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS

HENDERSON COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS

June 30, 2002

	Governmental Fund Types			
	General	Special Revenue	Capital Projects	Debt Service
<u>Assets and Other Resources</u>				
<u>Assets</u>				
Cash and Cash Equivalents	\$ 4,660,096	\$ 32,188	\$ 275,001	\$ 1,224
Notes Receivable	22,276			
Total Assets	\$ 4,682,372	\$ 32,188	\$ 275,001	\$ 1,224
<u>Other Resources</u>				
Amounts to Be Provided In Future Years for:				
Bond Payments	\$	\$	\$	\$ 14,975,000
Total Other Resources	\$ 0	\$ 0	\$ 0	\$ 14,975,000
Total Assets and Other Resources	\$ 4,682,372	\$ 32,188	\$ 275,001	\$ 14,976,224

The accompanying notes are an integral part of the financial statements.

HENDERSON COUNTY
 STATEMENT OF ASSETS, LIABILITIES,
 AND EQUITY ARISING FROM CASH TRANSACTIONS
 June 30, 2002
 (Continued)

Proprietary Fund Type	Totals (Memorandum Only)
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<u>Enterprise</u>	
-------------------	--

\$ 63,077	\$ 5,031,586
	<u>22,276</u>

<u>\$ 63,077</u>	<u>\$ 5,053,862</u>
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<u>\$</u>	<u>\$ 14,975,000</u>
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<u>\$ 0</u>	<u>\$ 14,975,000</u>
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<u><u>\$ 63,077</u></u>	<u><u>\$ 20,028,862</u></u>
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The accompanying notes are an integral part of the financial statements.

HENDERSON COUNTY
 STATEMENT OF ASSETS, LIABILITIES,
 AND EQUITY ARISING FROM CASH TRANSACTIONS
 June 30, 2002
 (Continued)

	Governmental Fund Types			
	General	Special Revenue	Capital Projects	Debt Service
<u>Liabilities and Equity</u>				
<u>Liabilities</u>				
Bonds:				
Series 1995 (Note 5)	\$	\$	\$	\$ 5,330,000
Series 2000 (Note 5)				9,645,000
Total Liabilities	\$ 0	\$ 0	\$ 0	\$ 14,975,000
<u>Equity</u>				
Retained Earnings:				
Reserved	\$	\$	\$	\$
Fund Balances:				
Reserved		32,188		1,224
Unreserved	4,682,372		275,001	
Total Equity	\$ 4,682,372	\$ 32,188	\$ 275,001	\$ 1,224
Total Liabilities and Equity	\$ 4,682,372	\$ 32,188	\$ 275,001	\$ 14,976,224

The accompanying notes are an integral part of the financial statements.

HENDERSON COUNTY
 STATEMENT OF ASSETS, LIABILITIES,
 AND EQUITY ARISING FROM CASH TRANSACTIONS
 June 30, 2002
 (Continued)

Proprietary Fund Type	Totals (Memorandum Only)
<u>Enterprise</u>	
	\$ 5,330,000
	<u>9,645,000</u>
<u>\$ 0</u>	<u>\$ 14,975,000</u>
\$ 49,453	\$ 49,453
	33,412
<u>13,624</u>	<u>4,970,997</u>
<u>\$ 63,077</u>	<u>\$ 5,053,862</u>
<u><u>\$ 63,077</u></u>	<u><u>\$ 20,028,862</u></u>

The accompanying notes are an integral part of the financial statements.

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STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

HENDERSON COUNTY
STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

For The Fiscal Year Ended June 30, 2002

	<u>General Fund Types</u>			
	Totals (Memorandum Only)	General Fund	Road and Bridge Fund	Jail Fund
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$ 12,360,290	\$ 6,316,798	\$ 1,491,466	\$ 2,933,621
Jail Canteen Receipts	257,465			
Other Financing Sources:				
Transfers In	3,148,505		1,200,000	550,000
Kentucky Advance Revenue Program	2,250,000	2,250,000		
Total Cash Receipts	<u>\$ 18,016,260</u>	<u>\$ 8,566,798</u>	<u>\$ 2,691,466</u>	<u>\$ 3,483,621</u>
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 11,229,579	\$ 4,348,410	\$ 2,674,601	\$ 2,813,730
Jail Canteen Expenditures	243,026			
Other Financing Uses:				
Capital Lease - Principal Paid	63,350	14,064		
Transfers Out	3,148,505	2,125,000		582,150
Cemetery Fund	11			
Bonds:				
Principal Paid	615,000			
Interest Paid	826,776			
Construction Costs	2,828,627			
Kentucky Advance Revenue Program- Repaid	2,250,000	2,250,000		
Total Cash Disbursements	<u>\$ 21,204,874</u>	<u>\$ 8,737,474</u>	<u>\$ 2,674,601</u>	<u>\$ 3,395,880</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ (3,188,614)	\$ (170,676)	\$ 16,865	\$ 87,741
Cash Balance - July 1, 2001	8,113,257	4,367,175	47,419	143,710
Cash Balance - June 30, 2002	<u>\$ 4,924,643</u>	<u>\$ 4,196,499</u>	<u>\$ 64,284</u>	<u>\$ 231,451</u>

The accompanying notes are an integral part of the financial statements.

HENDERSON COUNTY
STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES
For The Fiscal Year Ended June 30, 2002
(Continued)

General Fund Types			Special Revenue Fund Type	Capital Projects Fund Type	Debt Service Fund Type	Enterprise Fund Type
Local Government Economic Assistance Fund	State Grant Fund	Economic Development Fund	Cemetery Fund	Public Properties Corporation Courts Facility Fund	Public Properties Corporation Debt Service Fund	Jail Canteen Fund
\$ 504,073	\$ 221,543	\$ 285,888	\$ 1,717	\$ 186,793	\$ 418,391	\$ 257,465
375,000					1,023,505	
<u>\$ 879,073</u>	<u>\$ 221,543</u>	<u>\$ 285,888</u>	<u>\$ 1,717</u>	<u>\$ 186,793</u>	<u>\$ 1,441,896</u>	<u>\$ 257,465</u>
\$ 884,490	\$ 223,148	\$ 285,200	\$	\$	\$	\$ 243,026
49,286				441,355		
			11		615,000	
					826,776	
				2,828,627		
<u>\$ 933,776</u>	<u>\$ 223,148</u>	<u>\$ 285,200</u>	<u>\$ 11</u>	<u>\$ 3,269,982</u>	<u>\$ 1,441,776</u>	<u>\$ 243,026</u>
\$ (54,703)	\$ (1,605)	\$ 688	\$ 1,706	\$ (3,083,189)	\$ 120	\$ 14,439
89,094	21,836	5,609	30,482	3,358,190	1,104	48,638
<u>\$ 34,391</u>	<u>\$ 20,231</u>	<u>\$ 6,297</u>	<u>\$ 32,188</u>	<u>\$ 275,001</u>	<u>\$ 1,224</u>	<u>\$ 63,077</u>

The accompanying notes are an integral part of the financial statements.

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STATEMENT OF CASH
FLows-PROPRIETARY FUND TYPE

HENDERSON COUNTY
STATEMENT OF CASH
FLOWS-PROPRIETARY FUND TYPE

For The Fiscal Year Ended June 30, 2002

	<u>Enterprise Fund Type</u>
	<u>Jail Canteen Fund</u>
Cash Flows From Operating Activities:	
Cash Received From Inmate Sales	\$ 203,403
Other Receipts	2,462
Payments to Suppliers	(147,452)
Other Payments	<u>(44,012)</u>
Net Cash Provided By Operating Activities	<u>\$ 14,401</u>
Cash Flows From Investing Activities:	
Interest Received on Bank Accounts	<u>\$ 38</u>
Net Cash Provided by Investing Activities	<u>\$ 38</u>
Net Increase in Cash	\$ 14,439
Cash and Cash Equivalents July 1, 2001	<u>48,638</u>
Cash and Cash Equivalents June 30, 2002	<u><u>\$ 63,077</u></u>

The accompanying notes are an integral part of the financial statements.

HENDERSON COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2002

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Henderson County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the criteria stated in GASB 14, management has included the Henderson County Public Properties Corporation as part of the reporting entity.

Henderson County Public Properties Corporation

Fiscal Court has the authority to appoint a voting majority of the Public Properties Corporation's (PPC) Board of Directors. Fiscal Court also has the ability to approve or modify the PPC's budget, approve or modify rate or fee changes affecting revenues, veto, overrule, or modify decisions of the Board of Directors, or otherwise impose its will on the PPC. In addition, Fiscal Court is financially accountable for the PPC, legally entitled to the PPC's resources, as well as legally obligated for the PPC's debt. Financial information for the Public Properties Corporation is blended within Henderson County's financial statements.

Additional - Henderson County Constitutional Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

The Kentucky constitution provides for election of the above officials from the geographic area constituting Henderson County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

HENDERSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Henderson County Fiscal Court's fund types, a definition of each, and county funds included within each fund type are listed below.

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Henderson County General Fund Type includes the following county funds: General Fund, Road and Bridge Fund, Jail Fund, Local Government Economic Assistance Fund, State Grant Fund, and Economic Development Fund.

2) Special Revenue Fund Type

Special Revenue Fund Type accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for the specified purpose. The Henderson County Special Revenue Fund Type includes the following county fund: Cemetery Fund.

3) Debt Service Fund Type

Debt Service Fund Type accounts for the accumulation of resources for the payment of general long-term debt principal and interest and includes funds for the Public Properties Corporation Debt Service Fund. Debt service is provided through annual transfers from the General Fund Type in the amount of the debt service requirements for the year.

4) Capital Projects Fund Type

Capital Projects Fund Type accounts for financial resources to be used for acquisition of major capital facilities. The Public Properties Corporation Courts Facility Fund of the Fiscal Court is reported as a Capital Projects Fund Type.

HENDERSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting (Continued)

5) Enterprise Fund Type

The Enterprise Fund Type is used to report an activity for which a fee is charged to external users for goods or services. The Henderson County Enterprise Fund Type includes the Jail Canteen Fund, which is maintained by the County Jailer.

The canteen operations are authorized pursuant to KRS 441.135(1), which allows the Jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the Jailer to maintain accounting records and report annually to the County Treasurer the receipts and disbursements of the jail canteen. Technical Audit Bulletin 93-002 provides additional accounting and expenditure guidance for acceptable jail canteen operations. All profit expenditures were for the benefit and/or recreation of the inmates.

C. Basis of Accounting

For all fund types, the county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received, and expenditures when paid. Long-term receivables, long-term obligations and amounts to be provided in future years to retire debt are recorded in the financial statements. The amount to be provided in future years to retire debt is offset by any cash or cash equivalents held by the county in a bond or debt service fund.

The State Local Finance Officer does not require the county to maintain a general fixed assets group of accounts; therefore the value of the county's fixed assets is not included in the financial statements. These fixed assets include buildings, equipment and land that are owned by the county.

D. Legal Compliance - Budget

The Henderson County budget is adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the Fiscal Court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the Fiscal Court by July 1.

The Fiscal Court may change the original budget by transferring appropriations at the activity level; however, the Fiscal Court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

HENDERSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Legal Compliance - Budget (Continued)

Formal budgets are not adopted for the Public Properties Corporation Funds because bond indentures and other relevant contractual provisions require specific payments to and from these funds annually and transfers are budgeted in the General Fund Type to comply with these requirements. The Department for Local Government does not require these funds to be budgeted.

E. Cash and Cash Equivalents

Cash includes amounts in bank accounts. For the purpose of the statement of cash flows, the county considers all investments with a maturity date of three months or less when purchased to be cash equivalents.

KRS 66.480 authorizes the County to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Related Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following are considered related organizations of Henderson County Fiscal Court: Henderson County Tourism Commission and Henderson City-County Rescue Squad.

G. Joint Venture

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based upon these criteria, the Henderson City-County Planning Commission is considered a joint venture of Henderson County Fiscal Court.

HENDERSON COUNTY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2002
 (Continued)

Note 2. Employee Retirement System

The County has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system, which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The County's contribution rate for nonhazardous employees was 6.41 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report.

Note 3. Deposits

The County maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The County entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of August 31, 2001, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$680,000 of public funds uninsured and unsecured.

The County's deposits are categorized below to give an indication of the level of risk assumed by the County as of August 31, 2001.

	<u>Bank Balance</u>
Insured by FDIC	\$ 1,317,192
Collateralized with securities held by pledging depository institution in the County's name	3,828,362
Uncollateralized and uninsured	<u>680,000</u>
Total	<u><u>\$ 5,825,554</u></u>

HENDERSON COUNTY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2002
 (Continued)

Note 4. Note Receivable

The County loaned \$30,400 to the Henderson County Water District on December 31, 1985 for the purpose of constructing water lines to communities of Reed and Beels. Terms of the agreement stipulate a 20-year repayment schedule. Under the terms of the agreement, no interest is charged on the outstanding balance. The Henderson County Water District is in substantial compliance with the terms of the agreement. As of June 30, 2002, principal balance due was \$22,276.

Note 5. Long-Term Debt

A. Detention Center

The Henderson County Public Properties Corporation entered into a bond issue, Henderson County Public Properties Corporation Lease Revenue Bonds (Detention Center Project) Series 1995 on June 29, 1995, for the purpose of paying the cost of constructing a new county detention facility and the cost of issuance of the bonds. The issue amount of the bonds was \$7,060,000.

The Henderson County Public Properties Corporation entered into a lease agreement with the County in which the County will lease from the corporation the detention center facility in the amount of the aggregate of the interest on and the principal of the bonds, which are due and payable during the lease period, the cost of operation and maintenance of the project, the cost of insuring the project and the annual trustee fee. Rental payments are due semiannually on May 20th and November 20th of each year. The interest rate on the bonds is 5%. The outstanding balance as of June 30, 2002 was \$5,330,000. Future lease principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2003	\$ 282,900	\$ 300,000
2004	267,900	315,000
2005	252,150	330,000
2006	235,650	345,000
2007	218,400	360,000
2008-2012	787,725	2,115,000
Thereafter	<u>175,175</u>	<u>1,565,000</u>
Totals	<u>\$ 2,219,900</u>	<u>\$ 5,330,000</u>

HENDERSON COUNTY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2002
 (Continued)

Note 5. Long-Term Debt (Continued)

B. Courts Facility

The Henderson County Public Properties Corporation entered into a bond issue, Henderson County Public Properties Corporation Lease Revenue Bonds (Courts Facility Project), Series 2000 on April 15, 2000 for the purpose of financing the cost of the acquisition, construction, and equipping of a court facility and the cost of issuance of the bonds. The issue amount of the bonds was \$9,975,000. The Corporation and the County have entered into an annually renewable lease, dated April 15, 2000, wherein the County shall lease the courts facility from the Corporation at an agreed rental which will be used to pay the principal and interest on the bonds.

The Henderson County Public Properties Corporation and the Henderson County Fiscal Court entered into a lease/sublease agreement with the Commonwealth of Kentucky, Administrative Office of the Courts (the "AOC"), in which the AOC will use the courts facility and will sublease from the corporation the courts facility, and make payments in the amount of the court's share of the interest on and the principal of the construction of a courts facility, but not to exceed 8% annually of capital costs. The lease is renewable April 15th of each even numbered year. Rental payments are due semiannually on January 20th and July 20th of each year. The interest rate on the bonds ranges from 4.60% to 5.60%. The outstanding balance as of June 30, 2002 was \$9,645,000. Future lease principal and interest requirements are:

<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Scheduled</u> <u>Interest</u>	<u>Scheduled</u> <u>Principal</u>
2003	\$ 514,446	\$ 215,000
2004	504,342	225,000
2005	493,542	235,000
2006	482,144	245,000
2007	470,200	260,000
2008-2012	2,144,728	1,500,000
2013-2017	1,715,162	1,920,000
2018-2022	1,133,654	2,500,000
Thereafter	364,136	2,545,000
Totals	<u>\$ 7,822,354</u>	<u>\$ 9,645,000</u>

Note 6. Commitments and Contingencies

A. Industrial Revenue Bonds

The Henderson County Fiscal Court has adopted ordinances approving the issuance of Industrial Revenue Bonds and Pollution Control Bonds. Such bond issues do not constitute a general debt, liability, or moral obligation of Henderson County. Accordingly, these financial statements do not include any assets or liabilities related to the issuance of these various bond issues.

HENDERSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 6. Commitments and Contingencies (Continued)

B. Ambulance Service Agreement

In April 1983, the County of Henderson, along with the City of Henderson entered into an agreement with Community Methodist Hospital for the operation of a county-wide ambulance service. The hospital agreed to operate the ambulance service with both the City and County reimbursing the hospital for any operating loss incurred on a quarterly basis. Expenses incurred under this arrangement for fiscal year ended June 30, 2002, were \$230,957.

C. Solid Waste Interlocal Agreement

In response to KRS 224.830 and reducing solid waste stream at municipal landfills by 25%, the County of Henderson entered into an interlocal agreement with Union and Webster Counties and Cities of Henderson and Corydon establishing a Solid Waste Recycling Facility and Program for these areas. All parties have agreed to fund the operational expenses of this organization. The County is responsible for 22.5% of the Solid Waste Recycling Facility and Program operating expenses. Expenses incurred under this agreement for fiscal year ended June 30, 2002, were \$6,440.

D. Tri-County Interlocal Agreement for a New Water and Wastewater Treatment Facility.

The County of Henderson entered in an interlocal agreement with the Counties of Henderson, Webster, and McLean, the City of Henderson, and the City of Henderson Water and Sewer Commission, to which the local government agree to supplement the City of Henderson Water and Sewer Commission's debt service on the Water and Wastewater Treatment Facility in southern Henderson County on an equal basis should the excess revenues generated by the facility be less than the amount necessary to fund the debt service required for the related facility. The County's portion of expenses were \$14,000 for fiscal year ended 2002.

E. Solid Waste Transfer Station Interlocal Agreement

The County of Henderson entered into an agreement with the City of Henderson to fund 50% of the construction and operation of a solid waste transfer station to be used in the collection and disposal of solid waste collected within the City and County. The agreement is for a five-year period, beginning July 1, 1995 and ending June 30, 2002, with the option to renew for four, consecutive, five-year terms unless written notice is provided by either party. The County's portion of operational costs for fiscal year ended June 30, 2002, was \$248,956.

Note 7. Insurance

For the fiscal year ended June 30, 2002, Henderson County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

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COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

HENDERSON COUNTY
COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

For The Fiscal Year Ended June 30, 2002

<u>Budgeted Funds</u>	<u>Budgeted Operating Revenue</u>	<u>Actual Operating Revenue</u>	<u>Over (Under) Budget</u>
<u>General Fund Types</u>			
General Fund	\$ 5,305,710	\$ 6,316,798	\$ 1,011,088
Road and Bridge Fund	1,364,930	1,491,466	126,536
Jail Fund	2,690,412	2,933,621	243,209
Local Government Economic Assistance Fund	467,284	504,073	36,789
State Grant Fund	1,725,000	221,543	(1,503,457)
Economic Development Fund	305,200	285,888	(19,312)
Totals	<u>\$ 11,858,536</u>	<u>\$ 11,753,389</u>	<u>\$ (105,147)</u>

Reconciliation

Total Budgeted Operating Revenue Above	\$ 11,858,536
Add: Budgeted Prior Year Surplus	2,128,244
Less: Other Financing Uses	<u>(645,500)</u>
Total Operating Budget Per Comparative Schedule Of Final Budget and Budgeted Expenditures	<u>\$ 13,341,280</u>

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SCHEDULE OF OPERATING REVENUE

HENDERSON COUNTY
SCHEDULE OF OPERATING REVENUE

For The Fiscal Year Ended June 30, 2002

Revenue Categories	GOVERNMENTAL FUND TYPE				
	Totals (Memorandum Only)	General Fund Type	Special Revenue Fund Type	Capital Projects Fund Type	Debt Service Fund Type
Taxes	\$ 3,275,780	\$ 3,275,780	\$	\$	\$
In Lieu Tax Payments	83,567	83,567			
Excess Fees	61,482	61,482			
Licenses and Permits	219,953	219,953			
Intergovernmental Revenues	7,592,693	7,174,422			418,271
Charges for Services	126,817	126,817			
Miscellaneous Revenues	540,774	540,774			
Interest Earned	459,224	270,594	1,717	186,793	120
Total Operating Revenue	<u>\$ 12,360,290</u>	<u>\$ 11,753,389</u>	<u>\$ 1,717</u>	<u>\$ 186,793</u>	<u>\$ 418,391</u>

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COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

HENDERSON COUNTY
COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

For The Fiscal Year Ended June 30, 2002

Expenditure Categories	GENERAL FUND TYPES		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 3,098,257	\$ 3,003,263	\$ 94,994
Protection to Persons and Property	3,150,730	3,067,362	83,368
General Health and Sanitation	446,100	426,459	19,641
Social Services	284,445	263,103	21,342
Recreation and Culture	156,400	141,400	15,000
Roads	2,393,514	2,394,192	(678)
Bus Service	32,500	32,500	
Other Transportation Facilities and Services	10,000		10,000
Debt Service	8,315	2,757	5,558
Capital Projects	2,422,045	638,523	1,783,522
Administration	1,338,974	1,260,020	78,954
Total Operating Budget - General Fund Types	\$ 13,341,280	\$ 11,229,579	\$ 2,111,701
Other Financing Uses:			
Transfers to Public Property			
Corporation Bond Fund-			
Principal	285,000	285,000	
Interest	297,150	297,150	
Capital Lease Agreement-			
Principal on Lease- Vehicles	14,064	14,064	
Principal on Lease - Gradall	49,286	49,286	
TOTAL BUDGET - GENERAL FUND TYPES	<u>\$ 13,986,780</u>	<u>\$ 11,875,079</u>	<u>\$ 2,111,701</u>

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Sandy Lee Watkins, Henderson County Judge/Executive
Members of the Henderson County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of Henderson County, Kentucky, as of and for the year ended June 30, 2002, and have issued our report thereon dated July 11, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Henderson County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Fiscal Court Should Adopt An Administrative Code In Accordance With KRS 68.005
- The County Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral Of \$680,000 To Protect Deposits

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Henderson County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management is not intended to be, and should not be, used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
July 11, 2003

COMMENTS AND RECOMMENDATIONS

HENDERSON COUNTY
COMMENTS AND RECOMMENDATIONS

For The Fiscal Year Ended June 30, 2002

1) The County Should Adopt An Administrative Code In Accordance With KRS 68.005

KRS 68.005 requires the County to adopt an administrative code as noted below. As of June 30, 2002, the County has failed to comply with KRS 68.005.

(1) The fiscal court shall adopt a county administrative code, which includes, but is not limited to, procedures and designation of responsibility for:

(a) General administration of the office of county judge/executive, county administrative agencies, and public authorities;

(b) Administration of county fiscal affairs, including budget formulation, receipt and disbursement of county funds and preparation of records required for the county audit, and filing of claims against the county;

(c) Personnel administration, including description and classification of non-elected positions, selection, assignment, supervision, and discipline of employees, employee complaints and the county affirmative action program;

(d) County purchasing and award of contracts;

(e) Delivery of county services.

(2) The fiscal court shall review the county administrative code annually during the month of June and may by a two-thirds majority of the entire fiscal court amend the county administrative code at that time. The county judge/executive may at other times prepare and submit amendments to the code for the approval of a majority of the fiscal court.

County Judge/Executive Sandy Lee Watkins's Response:

The County Judge/Executive and his staff are currently finalizing an administrative code that will be designed specifically for Henderson County's needs.

HENDERSON COUNTY
COMMENTS AND RECOMMENDATIONS
For The Fiscal Year Ended June 30, 2002
(Continued)

2) The County Should Have Required Depository Institutions To Pledge Or Provide Additional
Collateral Of \$680,000 To Protect Deposits

On August 31, 2001, \$680,000 of the County's deposits of public funds in depository institutions was uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the county require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

County Judge/Executive Sandy Lee Watkins's Response:

The Treasurer has required the financial institutions to pledge or provide collateral sufficient to secure deposits. The above mentioned unsecured deposit was secured in September of 2001.

PRIOR YEAR FINDINGS:

The prior year findings, "The Fiscal Court Should Adopt An Administrative Code," and "The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits" were not corrected and are discussed above.

CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS

HENDERSON COUNTY FISCAL COURT

For The Fiscal Year Ended
June 30, 2002

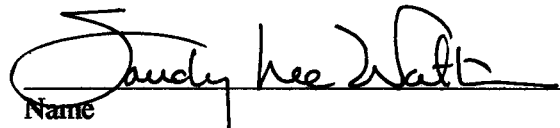
CERTIFICATION OF COMPLIANCE

LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS

HENDERSON COUNTY FISCAL COURT

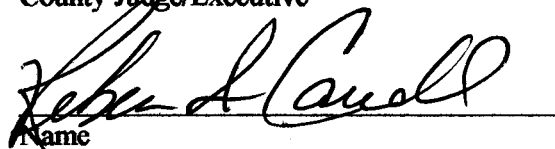
For The Fiscal Year Ended June 30, 2002

The Henderson County Fiscal Court hereby certifies that assistance received from the Local Government Economic Development Program and Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.

A handwritten signature in black ink, appearing to read "Sandy Lee Watt", written over a horizontal line.

Name

County Judge/Executive

A handwritten signature in black ink, appearing to read "Robert A. Carroll", written over a horizontal line.

Name

County Treasurer

